

**Address to the General Assembly
Special Session on Pension Reform**

Monday, June 23, 2008

Governor Steven L. Beshear

Mr. President, Mr. Speaker, distinguished members of the Kentucky General Assembly, Constitutional Officers, Honorable Members of the Court of Justice, honored guests including Kentucky's First Lady, and my fellow Kentuckians.

Section 80 of the Kentucky Constitution assigns the governor the authority to call the General Assembly into special session on what it calls “an extraordinary occasion.”

This – without question – is such an occasion.

Today we have the opportunity – indeed, the obligation – to come together to address a growing financial problem threatening the long-term viability of state and local governments.

I'm talking about the state pension crisis.

Various officials have likened the pension system's monstrous debt and escalating costs to an approaching meteor ...
a runaway freight train ...
or a tsunami increasing in strength right off the coast.

No matter what metaphor we use, the reality is ominous: We face a financial catastrophe – one that demands significant, immediate action.

Let me stress that: We must act now. Let me tell you why:

- First, we already face an unfunded liability of \$27 billion, which is growing by at least \$800 million a year. Think of it this way: That burden grows by \$2.2 million every day, or nearly \$92,000 every single hour.
- Second, our current system is unsustainable. The pensions of our teachers, police officers, firefighters, other city and county employees and our state employees are at risk. Unless we begin to rein in costs and increase our contributions, those systems will go bankrupt.
- Third, the increasing contributions required of county and city governments and school districts have already had a devastating impact, reducing critical services and bleeding taxpayers at all levels of government. Numerous county, city and school district leaders have

been meeting with me personally or communicating via public resolutions, stressing the gravity of this burden. They need relief, and they need it now!

- Fourth, the state will experience a record number of retirements this year. Failing to reform the system and curb practices such as double dipping will mean significant additional costs to the taxpayers of the Commonwealth.
- Fifth, two national credit agencies have already lowered the state's credit rating outlook, citing the pension crisis.

By not acting we risk a full credit downgrade that could cost us \$58 million a year in additional debt service payments.

- Finally, the longer we wait, the more money we will need to siphon off every year from critical efforts to teach children, care for the elderly, create jobs and protect the public.

Pension reform has been on the agenda for years, but attempts at significant action have stalled time and again over seemingly insurmountable issues that divert attention and sour relations.

It happened again in the recent regular session of the General Assembly. While we did increase the contributions the state will make to these systems over the next two years, once again agreement on significant pension reform broke down in the final hours of the session.

We must break this impasse.

On May 29, I announced a two-pronged strategy for resolving this pension crisis.

The first part of that strategy is to separate and temporarily set aside those few issues creating the most discord and division.

Those issues – like whether to adopt defined contribution and annuity plans and where to put classified school board employees – are important, but they should not stand in the way of quick, decisive action.

To tackle those issues I have created by executive order a Public Pension Working Group charged with reporting back to me by November 1.

In addition to those divisive issues, the Working Group has also been charged with tackling some of the major cost drivers of our unfunded liability, including improving investment returns on our pension funds.

The importance of that issue became apparent in a recent legislative committee report.

That report pointed out that over the last three years investment returns from Kentucky's retirement systems have lagged 2 to 5 percentage points behind those of some 25 other states.

The second part of my strategy is to act now on the reforms on which we agree. During the last session, the House, the Senate and I agreed in principle on most of the changes needed to put our pension systems on a sound financial basis once again.

So I prepared legislation containing those proposals. I gave those proposals to the leadership of both the House and Senate. I urged them to find consensus. And I vowed to call a special session should that consensus be reached.

I am happy to say that through hard work and perseverance, your leadership has indicated to me that we have come to agreement on the principles that are now contained in House Bill 1, introduced today.

So here we are.

House Bill 1 both reduces out-of-control costs and sets target dates for full funding to put our pension systems on an actuarially sound basis. Among other things, this bill:

- Honors our prior commitment to current public employees.
- It modernizes the pension system to ensure a financially sound and sustainable program, reducing the growth of the taxpayers' liability by billions of dollars over the next few decades.
- It begins to ease the tremendous financial burden on the budgets of county and local governments and school districts, providing approximately \$56 million in immediate relief to them.
- And most importantly, in the judgment of the system's own actuaries, when its funding targets are met, this bill will enable us to save the system from bankruptcy.

Many deserve credit in this effort.

I want to thank the President of the Senate, Senator Williams, for beginning the debate on these pension issues over two years ago.

And my thanks also Speaker Richards and other House leaders, to President Williams and other Senate leaders, and the chairs of the committees in the House and Senate who have dealt with this issue, Representative Mike Cherry and Senator Damon Thayer, for the hard work and bipartisan efforts that have brought us to this point tonight.

We've had serious, productive meetings with your leadership and with numerous stakeholders, and I treasure the teamwork, the mutual respect, the collaboration and the good will that have developed.

And I am optimistic about the future.

A quick and successful special session can signal the beginning of a new era in Frankfort, one where cooperation on critical public policy is the norm and where politics and partisanship are reserved for campaigns.

Today we have the opportunity to begin proving to the public that we can work together on complex problems.

In tough times more than any other, leadership is critical.

We can – again we must – step up to provide that leadership.

All of us. Together.

As we all know, Kentucky is suffering from not only a pension crisis but a downturn in the economy.

But Kentucky is not alone.

State governments all across this nation are plagued not only with pension problems but also with budget challenges of a more general nature.

A national survey in April noted that 23 states face budget gaps in 2009, many in the billions of dollars.

But shared misery is no excuse for us to sit idle or give up.

Indeed some recent efforts give us every reason to be optimistic about our economic future.

The enthusiastic response our Kentucky delegation received on recent recruiting visits to Japan and the West Coast indicates that the Commonwealth can and will emerge from the economic slowdown plaguing this nation.

In Japan, where I met with many manufacturing leaders, I found officials eager

to do business in Kentucky – in fact I expect soon to make two economic development announcements regarding new jobs for Kentuckians.

On the West Coast, where we and various university officials attended the International Biotechnology conference, I found similar enthusiasm from numerous companies who recognize that Kentucky has become a leader in a number of emerging biotech fields.

And just like in Japan, I expect soon to make some announcements related to these efforts.

With successes like these, and by showing the kind of bipartisanship we can demonstrate on pension reform, we can pull Kentucky out of this economic morass and set it on a path to progress once again.

So to Kentucky's teachers, police officers, firefighters, other city and county employees and our state employees, my message is this – I will fight for your well-earned right to a secure, financially sound retirement.

To the taxpayers of this Commonwealth, my message is this – I am determined to place our public pension systems on a sound financial basis so that your hard earned tax dollars can be spent on educating our children, providing health care for our people and creating jobs for Kentuckians.

This General Assembly has indicated a willingness to join me in this battle – so let us begin with the quick passage of House Bill 1.

Thank you and good night.

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